UNITED
NATIONS

DP

Governing Council
of the
United Nations
Development Programme

Distr.
GENERAL

DP/1991/25
20 May 1991

ORIGINAL: ENGLISH

Thirty-eighth session
3-21 June 1991, New York
Item 5 (c) of the provisional agenda

# SUPPORT COST SUCCESSOR ARRANGEMENTS

Report by the Administrator

CONTENTS


| | | Paragraphs | Page |
|---|---|---|---|
| I. | INTRODUCTION | 1 - 4 | 3 |
| II. | OVERVIEW OF RESOURCE PROVISIONS | 5 - 10 | 4 |
| III. | TECHNICAL SUPPORT SERVICES | 11 - 38 | 9 |
| | A. Technical support services at the programme level | 15 - 25 | 9 |
| | B. Technical support services at the project level | 26 - 35 | 13 |
| | C. Resources for the technical support facilities | 36 - 38 | 17 |
| IV. | IPF SUB-LINE FOR ADMINISTRATIVE AND OPERATIONAL SERVICES | 39 - 45 | 18 |
| V. | COST SURVEY AND ESTABLISHMENT OF DIFFERENTIAL RATES | 46 - 49 | 22 |
| VI. | APPLICATION OF SUCCESSOR ARRANGEMENTS TO THE WORLD BANK | 50 - 51 | 24 |
| VII. | APPLICATION OF SUCCESSOR ARRANGEMENTS TO THE OFFICE FOR PROJECT SERVICES | 52 - 56 | 25 |

CONTENTS (continued)


| | | Paragraphs | Page |
|---|---|---|---|
| VIII. | INTERCOUNTRY PROJECTS AND PROJECTS FINANCED BY SPECIAL PROGRAMME RESOURCES ..... | 57 - 61 | 26 |
| IX. | FLEXIBILITY PROVISIONS ..... | 62 - 66 | 27 |
| X. | CURRENCY FLUCTUATIONS ..... | 67 - 74 | 28 |
| XI. | TRANSITIONAL ARRANGEMENTS ..... | 75 - 81 | 31 |
| XII. | COST MEASUREMENT SYSTEM ..... | 82 | 34 |
| XIII. | MONITORING AND EVALUATION ..... | 83 - 84 | 34 |
| Annex. | UNDERSTANDINGS REACHED AT THE INFORMAL MEETING OF THE WORKING GROUP OF THE GOVERNING COUNCIL, HELD 20-29 FEBRUARY 1991 ..... | | 35 |


/...

# I. INTRODUCTION

1. The Governing Council, at its special session held in February 1991, considered the Administrator's progress report DP/1991/7 dealing with support cost successor arrangements. Following a detailed discussion, the Council referred the subject to a working group of the Council, to review the issues covered in the progress report and to provide further guidance to facilitate the preparation by the Administrator of a comprehensive report, to be submitted to the Council at its thirty-eighth session, as called for in decision 90/26. During the discussion, members of the Council expressed several views and made suggestions on the issues under consideration. However, the working group was not able to conclude the review and formulate recommendations for adoption by the Council. At the last meeting of the working group, the Associate Administrator summarized the issues for which Council members had expected more substantive coverage in the Administrator's report submitted at the thirty-seventh session. These points were later documented by the Associate Administrator and, at the request of the Chairman of the Council's working group, circulated by the United Nations Development Programme (UNDP) to all members of the Council. A copy of the note is attached in the annex.

2. The present report will not deal with those areas already covered in the Administrator's progress report submitted in document DP/1991/7. The Governing Council may therefore wish to review the present report in conjunction with document DP/1991/7. However, the present report will, to the extent possible, be self-contained and clear references made to the earlier document, as necessary.

3. As reported in document DP/1991/7, the Administrator had undertaken extensive consultations with the specialized and executing agencies of the United Nations system in the preparation of the interim report. These consultations, which were held in a constructive and cooperative spirit, were continued after the Council's special session. During this period, UNDP and the five agencies subject to the new regime have worked jointly on the compilation of data and in carrying out analyses requested by the Council. Additional consultations were also held with the World Bank and the agencies not subject to the new regime as well as with the Office for Project Services (OPS).

4. The Administrator is gratified with the progress achieved in elaborating the proposals for the implementation of the Governing Council's path-breaking legislation embodied in decision 90/26 despite the very limited time available since the special session in February 1991. He would like to express his appreciation to the agencies of the United Nations system which have collaborated with UNDP on the preparation of the present report.

## II. OVERVIEW OF RESOURCE PROVISIONS

5. The present report will follow, to the extent possible, the order of the various provisions of decision 90/26. However, the Administrator considers it useful to provide, at the outset, a comprehensive financial summary of his proposals, as reflected in the provisions of resources for financing the various components of the successor arrangements for agency support costs. A substantive analysis of the individual subjects and the reasons for his recommendations, are included in the relevant sections of the report.

6. In the interim report to the Governing Council (DP/1991/7), the Administrator stated that in determining the overall resource earmarkings for the fifth programming cycle he had set aside an amount of $634 million, which represents approximately 14 per cent of total programmable resources, as a limitation on the total cost of all applicable provisions of the successor arrangements. At the special session in February 1991, the working group of the Council agreed that he should continue further development of his proposals to the Council on the basis of this understanding, as stated in paragraph 1 of annex I.

7. In tables 1 through 3, the individual components of the total package of successor arrangements and their estimated costs are shown. In preparing these estimates, certain assumptions regarding the percentages of total programmable resources likely to be implemented by various implementing agents have been made. These assumptions, which are based on the patterns experienced in the previous programming cycles, are shown in table 3. It should be added that these assumptions are valid only for purposes of arriving at preliminary resource provisions and will be subject to change on the basis of actual occurrences during the fifth cycle.

8. The financial estimates are shown in tables 1 and 2. These tables reflect two different methods of making reimbursements of certain components of support costs to the agencies. The first one assumes, in accordance with paragraph 11 of decision 90/26, that resources amounting to 10 per cent of the already announced indicative planning figures (IPFs) (adjusted for carry-over projects) would be transferred to a sub-line of the IPF to finance administrative and operational services. In this model, only minimal resources would be held centrally in UNDP to fund (a) support costs in respect of carry-over projects (i.e., projects approved before 1 January 1992); (b) the costs of flexibility arrangements; (c) support costs of Special Programme Resources (SPR)-financed projects; and (d) an amount to cover the difference between 13 per cent support costs payable to small agencies and 10 per cent limitation on amounts chargeable to the IPF sub-line. The second model assumes that the applicable resources to finance support costs for agencies is based on an interpretation of paragraph 4 of decision 90/26, which states that the essential elements of the current regime could continue to apply to these agencies. In this model, the IPF sub-line will receive only those resources relating to the administrative and operational services to be rendered by the five agencies concerned and for nationally implemented projects.

9. From the tables, it can be seen that resources have been provided for in a very tight manner and that no significant provision has been made for actual costs exceeding estimates. Such deviations could result from actual patterns of implementation differing from those assumed in the models shown. A provision for a minimum contingency reserve of $9.5 million has been made, however, to cover payments in excess of resources held centrally. This possibility could occur if the percentage of programmable resources implemented by agencies paid out of central resources were to increase at the expense of those paid from the IPF sub-line.

10. Following further review and consultations with the agencies, the Administrator believes that the provisions he has advanced in the interim report, particularly with respect to the technical support facilities, are appropriate. Further explanations and justifications for the recommendations are provided in the relevant sections of the present report.

Table 1. Successor arrangements to agency support costs

Model I: Provision of costs based on resources for Administrative and Operational Services (AOS) for all agencies transferred to a sub-line of the IPF

(Millions of United States dollars)

| | Country IPF | Intercountry IPF | SPR | All resources combined | | Notes |
|---|---|---|---|---|---|---|
| Programmable resources for the fifth cycle, of which | 3 585 | 578 | 313 | 4 476 | | |
| Fifth cycle projects to be approved under transitionary arrangements | 800 | 130 | 70 | | 1 000 | |
| Projects to be approved under successor arrangements | 2 785 | 448 | 243 | | 3 476 | |
| Resources for successor arrangements | | | | 634.0 | | |
| Resources held centrally, of which | | | | 186.7 | | |
| Support costs for transitionary projects | 86.4 | 14.6 | 7.4 | | 108.4 | |
| Payments for agencies subject to current regime from central resources | 11.7 | 6.0 | 0.0 | | 17.7 | a/ |
| Support costs for SPR-funded projects | 0 | 0 | 23.3 | | 23.3 | |
| Costs of flexibility provisions for | | | | | | |
| Agencies eligible under current arrangements | | | | | 10.1 | |
| Agencies (United Nations units) eligible under successor arrangements | | | | | 17.7 | |
| Contingency reserve | | | | | 9.5 | |
| Technical Support Services | | | | | | |
| TSS-1 and TSS-2 combined | | | | 124.0 | | |
| Administrative and Operational Services resources to be transferred to IPF sub-lines, of which | | | | 323.3 | | a/ |
| Country IPF | | | | | 278.5 | |
| Intercountry IPF | | | | | 44.8 | |

a/ The provision for payments for agencies subject to current regime from central resources of $17.7 million and the provision of AOS resources to be transferred to IPF sub-lines of $323.3 million added together amount to $341.0 million. It may be noted that this amount is the same as in model II, as shown in footnote a/ of table 2.

/...

Table 2. Successor arrangements to agency support costs

Model II: Provision of costs based on Administrative and Operational Services (AOS) resources for agencies subject to current regime held centrally in UNDP

(Millions of United States dollars)

| | Country IPF | Intercountry IPF | SPR | All resources combined | Notes |
|---|---|---|---|---|---|
| Programmable resources for the fifth cycle, of which | 3 585 | 578 | 313 | 4 476 | |
| Fifth cycle projects to be approved under transitionary arrangements | 800 | 130 | 70 | 1 000 | |
| Projects to be approved under successor arrangements | 2 785 | 448 | 243 | 3 476 | |
| Resources for successor arrangements | | | | 634.0 | |
| Resources held centrally, of which | | | | 292.4 | |
| Support costs for transitionary projects | 86.4 | 14.6 | 7.4 | 108.4 | |
| Payments for agencies subject to current regime from central resources | 86.9 | 36.5 | 0.0 | 123.4 | a/ |
| Support costs for SPR-funded projects | 0 | 0 | 23.3 | 23.3 | |
| Costs of flexibility provisions for | | | | | |
| Agencies eligible under current arrangements | | | | 10.1 | |
| Agencies (United Nations units) eligible under successor arrangements | | | | 17.7 | |
| Contingency reserve | | | | 9.5 | |
| Technical Support Services | | | | | |
| TSS-1 and TSS-2 combined | | | | 124.0 | |
| Administrative and Operational Services resources to be transferred to IPF sub-lines, of which | | | | 217.6 | a/ |
| Country IPF | | | | 203.3 | |
| Intercountry IPF | | | | 14.3 | |

a/ The provision for payments for agencies subject to current regime from central resources of $123.4 million and the provision for AOS resources to be transferred to IPF sub-lines of $217.6 million added together amount to $341.0 million. It may be noted that this amount is the same as in model I, as shown in footnote a/ of table 1.

/...

Table 3. Percentage of programmable resources estimated to be implemented by various implementing agencies in the fifth programming cycle

(Based on historical patterns)

| Implementing agency | Country IPF | Intercountry IPF | SPR | All resources combined |
|---|---|---|---|---|
| Five agencies subject to the new regime | 58 | 22 | 15 | 50.4 |
| OPS | 8 | 8 | 50 | 10.9 |
| World Bank | 5 | 15 | 5 | 6.3 |
| National implementation | 15 | 10 | 10 | 14.0 |
| Other agencies | 14 | 45 | 20 | 18.4 |
| Total | 100 | 100 | 100 | 100 |

## III. TECHNICAL SUPPORT SERVICES

11. The Governing Council, in paragraphs 7 through 10 of its decision 90/26, established two technical support services facilities at the programme and project levels, which will be referred to in the present report as TSS-1 and TSS-2 respectively. The Council requested the Administrator to make detailed proposals for the implementation of these facilities at its thirty-eighth session (1991).

12. The working group of the Council, which discussed the interim report submitted at the special session in February 1991 (DP/1991/7), requested that the report to be submitted at the thirty-eighth session include a comprehensive and substantive analysis of these technical support services, including an assessment of the adequacy of the present funding arrangements for those services. Accordingly, a collective effort has been made by UNDP and the agencies concerned to identify and categorize these services as well as to collect data on the level of services currently provided and the sources from which they are financed.

13. In order to do so, all relevant areas of the fourth programming cycle activities of the agencies and UNDP were reviewed, including the regular programme work of the agencies in their standard-setting and substantive role; their research programmes in various sectors of competence; and operational activities funded by UNDP as well as other sources of financing. Data were collected from a variety of sources. The project databases maintained by the agencies and UNDP were reviewed to identify relevant projects through which sectoral and subsectoral analysis at the country level were carried out. In some cases, assessments of individual technical staff was sought. Ex post facto reports were another source of information. Finally, cost surveys conducted recently by a consultant firm for the purpose of establishing differential rates for clusters of services (see para. 47) also yielded data which were useful for this analysis.

14. Based on the data collected, two tables have been prepared showing the resources which were used for financing technical support services during the years of the fourth programming cycle, 1987-1991. Before providing an interpretation of the data, an important caveat must be mentioned. As already stated, it was difficult to obtain precise and fully comparable information on this subject; data from a disparate range of sources had to be reconciled and put together. However, the figures in the table are valid in orders of magnitude and can be relied upon by the Governing Council as rough assessments of the resources currently assigned to the various groups of services cited.

### A. Technical support services at the programme level (TSS-1)

15. Table 4 is an aggregation of the data relating to technical support at the programme level and represents an approximation of the resources deployed during the fourth programming cycle for this purpose. In compiling the data, the list of services appended to decision 90/26 was used to categorize the

Table 4. Estimate of resources available for technical services at the programme level during fourth programming cycle

(Millions of US dollars)

| Service | Agency regular programmes | Support cost income | UNDP (including IPF) | Total |
|---|---|---|---|---|
| (Sub)sector analyses | 125 | 10 | 65 | 200 |
| Direct policy advice to Governments | 68 | 2 | 40 | 110 |
| Country programme reviews | 35 | 5 | 10 | 50 |
| Thematic evaluations | 5 | 0 | 5 | 10 |
| Total | 233 | 17 | 120 | 370 |

services, except for one change by which sectoral analysis (item A in the list) was combined with the development of sector-specific programmes (item C). This list was understood to include only country-specific, direct services and to exclude several other services of a global or intercountry nature which are carried out as part of an agency's sectoral mandate. The latter, which are financed from the regular programme budgets of the agencies, form an essential basis for further downstream work leading to formulation of technical cooperation programmes and projects. These activities consist mainly of global, regional and sectoral levels information collection, analysis and dissemination; maintenance of databases and statistics essential for keeping an institutional memory; sectoral and thematic evaluations; and participation in intergovernmental meetings and seminars in sectoral subjects. It is estimated that in financial terms, the allocation of resources to these activities exceed by several orders of magnitude, the amounts shown in table 4.

16. Table 1 is based on a restrictive interpretation of what may be classified as (a) country-specific (sub)sectoral analyses and studies and (b) the provision of policy advice to Governments based on such studies. The former includes regular sector assessments and analyses; reviews of sector development strategies and policies; the maintenance of country information at the sector level; needs identification and assessments; and regular consultations with Governments, funding institutions and donors on sector development activities. The latter involves direct policy advice and support to Governments and UNDP and the formulation of integrated programmes.

## 1. Interpretation of the data and conclusions drawn

17. The data provided show that a significant level of resources, amounting to $370 million, were available for programme-level technical support. Of this amount, sectoral and subsectoral analyses and needs identification and the development of sector-specific programmes and related studies amounted to approximately $200 million. The regular programme budgets of the agencies provided over 60 per cent of this amount while UNDP sources, mainly through IPF-financed projects, provided 30 per cent. Technical support involving the provision of direct advice to Governments and UNDP through policy-based studies was carried out in an ad hoc manner in response to specific requests of Governments. Country programme reviews were generally carried out using IPF resources but with the contribution of staff resources from the agencies, funded from their regular budgets. Only a small number of thematic evaluations were carried out during the fourth cycle, funded equally from agency and UNDP sources.

18. However, these studies are not fully exploited in all cases nor are their results directed to achieve maximum impact. There are several reasons for this.

19. In some instances, there is the absence of a firm link between technical studies and the overall planning and policy formulation process in the country itself - perhaps requiring ministerial and cabinet level consideration and explicit interest. This is an area where the ready and continuous access of UNDP to such decision-makers and coordinating ministries can make an important contribution.

20. Secondly, there are the benefits to be gained by further practical coordination among agencies in the scheduling and substantive harmonization of much of this kind of work. To some extent, this can maximize the combined use of diverse studies in a multidisciplinary, cross-sectoral setting.

21. Thirdly, the close attachment of such programme-level efforts to needs and demands as expressed at the country-level will be important. This will increasingly enable such work to blend priorities expressed in the various governing bodies with needs felt at the field level. Thus, global orientations may be better matched with specific country perspectives.

22. Finally, there is a need to link sectoral, subsectoral and policy advice activities closely with resource mobilization strategies, where appropriate. This, again, can benefit from the close relationships of UNDP with planning and finance ministries and with other sources of international development financing.

23. It is for these reasons that the establishment of TSS-1 has been a welcome development: it could have a catalytic effect in bringing together, at the country level, the excellent technical work being carried out by the agencies. The Governing Council will recall that in paragraph 8 of its decision 90/26, by which it established TSS-1 it was stated that TSS-1 should

provide "supplementary financing of identified programme-level services ... complementary to, and not substituting for the regular programme functions currently carried out by the agencies". Based on this, TSS-1 is being set up not to duplicate or add to the work already being done by the agencies but to address the issues described in paragraphs 18 through 22 above, so as to make these activities more effective and policy-oriented.

24. Accordingly, the purposes for which TSS-1 should be used include:

(a) Assist in ensuring that the sectoral activities of the agencies (specified in table 2) are based on integrated country-level needs, broadly synthesized and carried out at the appropriate time. For this purpose, it may be necessary to ensure that a specified number of major sectoral reviews are carried out for each country during a five-year programming period, if necessary by providing supplementary financing from TSS-1;

(b) Prepare cross-sectoral, policy-oriented analysis at the country level to support preparation of national development strategies and programmes; and

(c) Ensure participation by the sectoral agencies in country programmes and reviews.

## 2. Management of the TSS-1 facility

25. As previously described in document DP/1991/7, it is proposed that the following principles and considerations apply in the operation of the TSS-1 facility:

(a) At the field level, the United Nations Resident Coordinator, jointly with, and where appropriate, on behalf of the agencies concerned, will conduct discussions with the Government concerning its sectoral priorities and needs, as well as the specific assistance sought by the Government from the United Nations system for this purpose. The information collected will be communicated to the headquarters of UNDP and the agencies concerned;

(b) Based on the information provided, the agencies and the Regional Bureaux of UNDP will meet, at the headquarters level, in annual review meetings to draw up a work programme to be financed by the TSS-1 facility. Such a work programme will identify:

(i) The country-specific (sub)sectoral studies to be conducted by each agency, taking into account the relevant activities planned under the regular programmes of agencies and programming exercises such as national technical cooperation assessments and programmes (NATCAPs);

(ii) The adjustments required to ensure that the outputs of the studies are available in a synchronized manner and at the appropriate time to assist in the policy-making processes of the Government; and

(iii) Cross-sectoral, policy-oriented studies to be made available to the Government and external funding sources;

(c) The process described above should include sufficient flexibility to deal with changing circumstances and to respond to ad hoc requests;

(d) TSS-1 resources will be made available to the five agencies for two-year periods based on three-year forecasts, as called for in paragraph 9 of decision 90/26;

(e) The distribution of TSS-1 resources among the five agencies will be based initially, as suggested by the agencies themselves, upon their respective percentages of IPF expenditures during 1987-1990. Such an earmarking has been suggested by the agencies for an initial start-up period only and will be subject to revision for subsequent periods based on country-level demand as expressed through the process described above.

B. Technical support services at the project level (TSS-2)

26. Table 5 presents an assessment of various categories of technical services provided at the project level during the fourth programming cycle. The data relate only to the programmes and projects financed from UNDP resources and therefore exclude services which may have been provided in respect of projects financed from other sources available to agencies. The data are valid only in orders of magnitude for the reasons described earlier.

Table 5. Estimate of resources available for technical services at project level during fourth programming cycle a/

(Millions of US dollars)

| Service | Agency regular programmes | Support cost income b/ | UNDP (including IPF) | Total |
|---|---|---|---|---|
| Project identification and formulation | 50 | 20 | 100 | 170 |
| Project appraisal | 15 | 5 | - | 20 |
| Project monitoring and technical backstopping | 80 | 75 | 35 | 190 |
| Project evaluations | 10 | 5 | 25 | 45 |
| Total | 155 | 105 | 160 | 420 |

a/ Applies to UNDP-financed programmes/projects only.

b/ Total income from support costs for fourth programming cycle estimated to be $280 million.

1. Interpretation of the data and conclusions drawn

27. Technical support services amounting to $420 million were provided during the fourth programming cycle, of which almost 40 per cent were met from agency regular budgets, 20 per cent from UNDP support cost income and 40 per cent from the IPF. Regular budget financing is usually provided for project formulation and monitoring through the assignment of staff resources. IPFs are usually used for project formulation activities and the in-country and travel costs of monitoring and evaluation missions.

28. A large part of the agency support cost income is assigned for project monitoring and technical backstopping activities. The term "monitoring" as used in the annex to decision 90/26 was understood to mean the monitoring and backstopping of projects by agency technical staff. This would include not only participation in tripartite reviews but also the continuous scrutiny of project progress and output and the provision of direct technical advice and support to projects as and when required.

29. The financing of project formulation activities from IPF sources, mainly through preparatory assistance projects is considerable. While precise figures are not available, it is estimated that an amount of $90 million was utilized from the IPF for this purpose. Preparatory assistance funds were

generally used for the in-country costs of missions and when external consultants are used, for their fees as well. Regular budgets and support cost income rather than IPF are used to cover costs of technical staff of agencies when they participate in project formulation activities.

30. A rough estimate of total project formulation costs for the cycle, based on average costs of formulation for various classes of projects, amounts to $170 million. Sixty per cent of this amount was financed from the IPF and 30 per cent from the regular programme budgets of the agencies.

31. Project monitoring costs amounted to $190 million. It will be seen from table 5 that the bulk of these costs were met from the agency budgets and support cost income and only to a limited extent from the IPF. The level of support that could be provided from these resources was generally considered to be inadequate.

32. Based on the data provided, considerable resources from a variety of sources were available for project technical services. However, in recent years there has been a decline in the level of support provided because of restrictions on agency regular budgets and rising costs from an increase in project complexity. It also appears that any decline in support cost income would primarily affect project technical monitoring; therefore agencies consider that it is to this stage of the project cycle that the resources of TSS-2 should be mainly directed. In this context, concern has also been expressed that any reductions in the level of funding available would have an unfavourable impact on the technical monitoring of nationally implemented projects. Any reduction in support cost income will also, to a lesser extent, affect project formulation.

## 2. Management of the TSS-2 facility

33. The Governing Council, in paragraph 10 of decision 90/26, requested the Administrator to recommend modalities for the management of the facility, including the possibility of holding the resources of TSS-2 centrally. The Administrator believes the following considerations should apply in this respect:

(a) TSS-2 funds should be earmarked for services to be provided by the agencies subject to the new regime;

(b) The use of TSS-2 should be demand-based and related directly to the requirements of individual projects in the sectors represented by the concerned agencies, regardless of implementation modalities;

(c) Payments should be made only for services sought and rendered;

(d) As provided for in decision 90/26, the responsibility for the management of the facility is entrusted to the Administrator. Accordingly, the authority for the approval of funds from the facility shall rest with the Administrator;

(e) Resources from the facility shall be made available to individual country and intercountry programmes in an open and equitable manner, subject to the requirements of individual projects.

34. Based on the above considerations, the Administrator proposes that the facility should be administered along the following lines:

(a) The overall management of the facility, including management of resources, shall be carried out centrally from UNDP headquarters;

(b) Approval of TSS-2 funds shall be in accordance with the currently established delegations of authority relating to approval of projects;

(c) While there will be no entitlements on the part of individual programmes to specific shares of the facility, to ensure equity in the distribution of resources of the facility, the funds shall be earmarked roughly in line with IPFs;

(d) These earmarkings may be adjusted up or down on the basis of actual use and need for services. Such adjustments shall be made centrally from UNDP headquarters;

(e) To encourage use of the facility, it is intended that unused earmarkings will lapse at year end and revert to the central TSS-2 fund. The earmarkings for subsequent years shall be determined annually on the basis of experience and estimated needs;

(f) The need for technical services to be funded from TSS-2 shall be determined on a project-by-project basis initially at the time of project formulation. Both the project and TSS-2 budgets shall be prepared and approved at the same time. Prior to approval, Resident Representatives will seek the technical comments of the specialized agency concerned in its field of competence. In preparing the budget, an estimate of the services required in terms of workmonths shall be made by the Resident Representative in consultation with the agency concerned. Costing of services shall be based on a standard cost per workmonth and will be budgeted for accordingly;

(g) It is understood that specialized agency technical services of monitoring and evaluation shall normally apply to all large-scale projects and projects of special complexity. Other projects shall be subject to these services as appropriate;

(h) UNDP will provide the specialized agencies, on an annual basis, with a report on the utilization of the TSS-2 fund;

(i) As shown in table 5, IPF and SPR resources have been available so far to finance several categories of technical services. It is assumed that these sources will continue to be available for these purposes.

35. The proposals described above relating to TSS-1 and TSS-2 were developed by UNDP, in full consultation with the specialized agencies concerned. The Administrator believes that the implementation of these proposals will lead to an enhancement of the quality of the technical support services provided by the agencies to the developing countries.

### C. Resources for the technical support facilities (TSS-1 and TSS-2)

36. In the interim report to the Governing Council at its special session in February 1991 (DP/1991/7), the Administrator recommended that TSS-1 and TSS-2 be established at levels of $80 million and $44 million respectively, based on his interpretation of the relevant provisions of decision 90/26 and the availability of resources for financing the costs of successor arrangements to agency support costs. A further and detailed review of the financial provisions of the successor arrangements, including the costs of its individual components (see sect. II) and of the sources currently available for financing technical support services (tables 4 and 5) has been made by UNDP. On the basis of this review, the Administrator continues to believe that an amount of $124 million, as previously recommended, is the appropriate level for the two technical facilities combined. In this context, it may be recalled that the agencies viewed this amount as "close to meeting the minimum 'critical mass' required" (see para. 4 of annex II of document DP/1991/7).

37. In light of the data and analyses presented in paragraphs 11 through 35, however, the Administrator believes that the individual amounts for the two facilities may be reviewed again. In doing so, the Governing Council may wish to take the following into consideration:

(a) Agencies have stated that the present support cost income, used for project-level technical services, as shown in table 2, cannot be replaced by funds from their regular budgets. Therefore, agencies continue to believe that the previously recommended level of $44 million is insufficient. Concern has also been expressed that any consequent reduction in project monitoring services will have an immediate unfavourable impact on the quality of project implementation;

(b) The magnitude of resources needed for TSS-1, as a new facility, remains uncertain. While it is clear that the facility is a welcome initiative, essential for enhancing upstream sectoral activities, the possibility exists for it to be introduced at a lower level at the beginning and reviewed subsequently in 1994 on the basis of experience gained in the intervening period.

38. The Administrator recommends, therefore, that the Governing Council consider levels of TSS-1 and TSS-2 within an overall amount of $124 million.

## IV. IPF SUB-LINE FOR ADMINISTRATIVE AND OPERATIONAL SERVICES

39. In paragraph 11 of decision 90/26, the Governing Council decided "that financing for administrative and operational support of projects should be drawn, starting from 1 January 1992 from a sub-line within country indicative planning figures to be created by transferring resources previously housed in the support cost line to this new indicative planning figure sub-line" and "to appropriate, as a working hypothesis, 10 per cent of country indicative planning figures for this purpose". At the same time, the Council also decided in paragraph 3 of decision 90/26 that "the basic elements of the current regime could continue for the smaller agencies and those for which the United Nations Development Programme-financed technical cooperation work is slight in the overall work of the agency". In interpreting these two provisions, taken together, the Administrator has reached the following conclusions:

(a) As a basic element of the current regime, the agencies which will be subject to it will continue to be reimbursed for their support costs out of resources held centrally in UNDP. For this purpose, an earmarking of the resources required would be made from the total amount ($634 million) set aside for financing the costs of successor arrangements;

(b) The amounts to be transferred to the country IPF sub-lines, in accordance with paragraph 11 of the decision, would be calculated, taking into account (a) above.

40. These interpretations were provided to the Governing Council in paragraph 6 of the Administrator's interim report contained in document DP/1991/7. During a discussion of this subject in the working group, some delegations stated that paragraph 11 of decision 90/26 required that a full amount of 10 per cent of country IPFs should be transferred to the IPF sub-lines and payments with respect to AOS for all agencies i.e., those subject to the new regime as well as those which will continue to be subject to the current regime, should be made from the sub-line. As stated in paragraph 3 of the annex, UNDP agreed to provide the Council with an analysis of the issues surrounding the implementation of paragraph 11 of decision 90/26 in relation to the agencies governed by the current regime.

41. Accordingly, the Administrator is presenting below an analysis of the two options suggested. In preparing this analysis, the Administrator sought and obtained the views of the agencies affected. Table 6 summarizes the advantages and disadvantages of the two methods, incorporating the views of the agencies. As discussed in paragraph 8, the financial provisions necessary under the two options are presented in tables 1 and 2.

TABLE 6. Comparison of methods of reimbursements for administrative and operational services

MODEL I

Based on all agencies being paid from IPF sub-line for administrative and operational services (flexibility payments and part of support costs of small agencies paid from central resources).

| Advantages | Disadvantages |
|---|---|
| 1. Provides similar treatment to all agencies. | 1. More cumbersome accounting involving multiple accounts and split charges. |
| 2. Decision-making on the choice of implementing agency could be free of considerations of source of support cost payments. | 2. May induce some governments to negotiate a lower rate of support cost from small agencies, thus compromising a basic feature of current regime; also such project-by-project negotiations between a small agency and a Government on this matter are not practical, as the former typically does not have resident representation (other than through UNDP) in the field. |
| 3. Incorporates incentive to national implementation in sectors represented by small agencies as in those represented by large agencies. | 3. Agencies are concerned this model introduces greater degree of unpredictability in their operations. |
| 4. Less risk of exceeding estimate of central allocation as resources held centrally smaller than in model II. | |

## MODEL II

Based on: (a) agencies subject to new regime paid from IPF sub-line; and (b) agencies continuing under current regime paid from central resources.

### Advantages

1. Simplicity of administration resulting from:

   (a) Continuation of established modalities of payment for "small" agencies;

   (b) Accounting more straight forward as all payments from single central provision.

2. Preferred by agencies concerned because:

   (a) Avoids possible need for cumbersome project-by-project negotiations with governments;

   (b) Inherently more predictable than model I, which may bring extraneous financial consideration in the determination of small agencies as implementing agents.

### Disadvantages

1. Countries which utilize small agencies disproportionately will benefit at the expense of other countries which utilize those agencies less than proportionately. This is because central allocation is estimated on the basis of global shares of small agencies versus big five agencies, a situation which may not apply at individual country levels.

2. May constitute a disincentive to national implementation in sectors represented by small agencies, as use of small agencies for implementation is support cost free as seen at country level.

3. Greater risk of exceeding central allocation than in model I.

42. It should be noted that the model I of table 6 is based on the premise that 10 per cent of the 13 per cent support costs payable to the small agencies will be charged to the IPF sub-line. The additional 3 per cent will be financed from a central allocation. The reasons for these premises are as follows:

(a) The IPF sub-line, as stated in paragraph 11 of decision 90/26, is expected to finance administrative and operational services only, as technical support services are financed from other sources. As the small agencies are entitled to a flat rate of 13 per cent, covering both AOS and technical services, only the former would be a legitimate charge to the sub-line. The latter should therefore be financed from a source analogous to the technical support facilities (TSS) which are funded from central resources;

(b) The resources available in the IPF sub-line, limited to 10 per cent of the IPF, are not sufficient to cover the totality of support costs. This will be especially so in countries which mainly or exclusively use small agencies, a situation not untypical of countries with small IPFs.

43. As stated earlier, the agencies concerned were invited by the Administrator to provide comments on this issue, some of which have been reflected in table 6. All expressed strong reservations on model I: they pointed out that it had not been considered during the period leading up to the adoption of decision 90/26. In their view, the introduction of model I at the present time has the effect of compromising the original intention of the legislation, stated in decision 90/26, that the basic elements of the current regime could continue to apply to them. Several agencies expressed a serious concern that some recipient governments may, under this proposal, be tempted to enter into negotiations with them with a view, in specific project situations, to obtain agreement on a rate lower than 10 per cent to be charged to the IPF sub-line. They pointed out further that, even though these are only accounting arrangements, the proposal will have the effect of introducing an apparent - and arbitrary - distinction between AOS charges (to be paid from the IPF sub-line) and technical services (to be paid from central resources). This method may therefore lead, at least prima facie, to a situation in which the small agencies become subject to a regime which resembles in appearance the new regime applicable to the five large agencies. This was not the intention of the original legislation, in which they were given a choice between the two regimes under consideration; they had in fact chosen to continue to be subject to the current regime.

44. Some agencies expressed an overall concern regarding the potential viability of technical cooperation activities in their respective fields, if model I were implemented. Since they are mostly small technical agencies without field representation and without a strong counterpart ministry advocating their sectoral interests, the risk existed, they believed, that projects in their areas of competence, which were often complex and required their technical involvement and support, would begin to decline. The resulting reduction in their support cost earnings might in turn lead to an erosion in the capacity of the technical agencies to deliver technical cooperation projects, a development which would be ultimately detrimental to the interests of the developing countries.

45. On the basis of the analysis presented above and the views expressed by the agencies concerned, the Administrator confirms that the conclusion he expressed in paragraph 6 of document DP/1991/7, on the method of charging support costs for these agencies, continues to be valid. Whichever method is chosen by the Governing Council, the Administrator strongly recommends that, as a minimum, the Council should unequivocally affirm that the support cost rate applicable to the small agencies would not be subject to negotiations on a project-by-project basis. To reinforce this, the Administrator should be authorized to charge automatically the respective accounts with the applicable support cost payments (in the case of model II, 13 per cent to central resources; in the case of Model I, 10 per cent to the IPF sub-line and 3 per cent to central resources).

## V. COST SURVEY AND ESTABLISHMENT OF DIFFERENTIAL RATES

46. In paragraph 14 of decision 90/26, the Governing Council requested the Administrator to make proposals for standard differential rates for clusters of services related to administrative and operational support. In this connection, the Council authorized him to commission an independent survey of the cost of particular services provided by the executing agencies.

47. Accordingly, after consultation with the agencies concerned, the Administrator engaged a firm specializing in consulting services for not-for-profit organizations, to conduct the survey and to establish the relative cost of services through the development of preliminary rates which reflect the total cost of support to each cluster of service. After discussions with UNDP and the agencies, the consultant designed a methodology for the development of preliminary rates. This methodology provided for the following major tasks:

(a) Determination of the total cost of each major organizational unit within each agency based upon its 1990-1991 budgeted costs;

(b) Distribution of costs of agency-wide central services to units providing direct technical or administrative support to projects;

(c) Determination, through a survey of agency staff (selected on the basis of a statistically valid sample), of the amount of time devoted to the support of each of the various clusters of AOS services;

(d) Calculation of the actual cost of each cluster of service, including a share of central support costs (e.g., finance, space, personnel);

(e) Calculation of the 1990-1991 estimated field project delivery costs and computation of preliminary rates for each agency at the cluster level.

48. The status of implementation of the cost survey is as follows:

(a) The consultants have completed the collection of budgetary data as well as estimates, made by the staff concerned, of the time allocated by them in 1990 to various activities, including technical support to projects or programmes; administrative and operational support to projects; and regular budget activities. For the latter, as required by the methodology, a sample consisting of 20 per cent of the staff of each technical unit and 100 per cent of the staff of each administrative support unit was constituted;

(b) The survey results have been applied to the cost of each organizational unit which provides AOS support to projects to determine units costs for each cluster of service. Preliminary rates by agency and service cluster have also been established;

(c) The consultant has met with agency representatives to review the preliminary rates, to clarify issues, and to reach agreement on these rates. The validity and use of the preliminary rates have also been discussed at joint meetings with UNDP, agency staff, and the consultants. Certain concerns about the comparability of rates and completeness of the survey have been expressed by the agencies. The consultants have agreed that certain refinements will be necessary before an interim report can be issued;

(d) The consultant has stated that the impact of the refinements mentioned above could not be quantified without additional information. The consultant believes, at this point, that the preliminary rates developed using the methodology described are indicative of agency administrative and operational support to projects for the 1990-1991 biennium;

(e) The consultant is in the process of assisting UNDP and the agencies in developing a methodology for converting the rates based upon actual costs to reimbursement rates which recognizes that the latter should not, on the average, exceed 10 per cent of project value;

(f) The consultant expects to provide an interim report to the Administrator in June 1991 which will include the preliminary rates and the methodology mentioned in (e) above. That report will therefore be available in time for distribution to the Governing Council at its current session;

(g) The consultant anticipates that the refinements necessary to finalize the calculation of the actual costs of agency support of technical cooperation projects and the conversion of these cost calculations to support cost reimbursement rates can be completed by 31 October 1991. For the purposes of establishing the final rates, the consultant has recommended that agency budgets for the 1992-1993 biennium be used to ensure that the most current cost data are included and that structural changes and reorganizations, planned by the agencies, are reflected. This schedule will allow the agencies two months prior to the implementation of the support cost successor arrangements to design and install new mechanisms necessary for budgeting and reimbursement of support costs.

49. The Administrator is pleased with the progress achieved in this area in a very limited period of time and expects that the additional information to be provided to the Governing Council at its current session will permit a review and discussion of the subject. He would like to add that further refinements of the data and rates will need to be made, as stated in paragraph 47 above, before they are established for the successor arrangements scheduled to go into effect as of 1 January 1992.

## VI. APPLICATION OF SUCCESSOR ARRANGEMENTS TO THE WORLD BANK GROUP

50. Although not explicitly required to do so by decision 90/26, UNDP held a detailed review with the World Bank regarding the method and rate of compensation which could be applied under the successor arrangements to UNDP-financed projects implemented by the World Bank Group. Support cost payments to the World Bank are currently reimbursed at a rate of 11 per cent for projects implemented by it. Following a detailed and careful review, the Administrator, in agreement with the World Bank Group, has formulated the following recommendation to the Governing Council:

(a) Support cost reimbursements to the World Bank Group should continue to be made at a fixed rate;

(b) This rate of reimbursement should be reduced from 11 per cent currently in effect to 10 per cent for projects to be approved after 1 January 1992.

51. This recommendation is made on the basis of the considerations detailed below:

(a) The World Bank estimates that the overall costs incurred by it in support of UNDP-funded activities fall in the range of 16-18 per cent and thus there has been a sharing of costs between UNDP and the World Bank;

(b) In the spirit of enhancing the strategic relationship existing between the two institutions for the purpose of helping to strengthen national capabilities in developing countries, the World Bank has agreed to accept a reduced rate of 10 per cent as support cost reimbursement for projects executed by it;

(c) The World Bank notes that it provides extensive technical support assistance to developing countries in the form of what is called "embedded" technical cooperation;

(d) In addition to support for project-related technical cooperation activities, the World Bank Group, with its multisectoral capacity, provides substantial support to upstream activities, in particular towards the development of macroeconomic analysis and sector analyses;

(e) The World Bank Group would expect that technical support services at the project level, including project design, monitoring and evaluation activities in respect of World Bank-implemented projects could be funded from project resources in agreement with the government concerned;

(f) The World Bank Group preferred that support cost reimbursements should be made from resources held by UNDP centrally.

## VII. APPLICATION OF SUCCESSOR ARRANGEMENTS TO THE OFFICE FOR PROJECT SERVICES

52. In paragraph 5 of decision 90/26, the Governing Council requested the Administrator to submit proposals on the appropriate application of successor arrangements to services provided by OPS.

53. Under the current regime, OPS is reimbursed at the rate of 11 per cent for projects financed by IPF funds. Even though OPS has recently devised its own methodology for computing reimbursement rates for activities carried out under management services agreements, which might also have been applicable to other activities, UNDP considered it appropriate to have an independent cost survey of OPS-implemented, IPF-funded activities conducted by the consultant firm referred to in paragraph 47, in order to formulate proposals to the Governing Council for the application of successor arrangements to OPS. It was considered particularly appropriate since in paragraph 5 of decision 90/26 the Council requested that the results of the work carried out in respect of the agencies subject to the new regime be taken into account in this study as well.

54. The study is currently in progress. The consultant initiated the cost survey of OPS after work with the five agencies had been launched so that the methodology used with the agencies could be applied to OPS. The consultant reports that the study with OPS will be completed before the start of the thirty-eighth session of the Governing Council. The interim report of the consultant, referred to in paragraph 47, will contain the results of the study and the conclusion and recommendations of the consultant.

55. In preliminary discussions with OPS and the consultant, it became apparent that a differential rate structure for clusters of AOS services could be applied to OPS as well. In this context, it also appears, based on preliminary analysis, that the rate of compensation for AOS to be paid to OPS for IPF-financed projects would not, on the average, exceed 10 per cent of the project value. If this preliminary analysis is borne out by the results of the cost survey, the Administrator intends to reduce the overall rate or reimbursement from 11 per cent to 10 per cent. This change would bring the level of reimbursement to OPS in line with that suggested for the World Bank in section VI above and to those of the agencies subject to the new regime. Also, as mentioned in paragraph 50 (e) for the World Bank, technical support services at the project level for projects implemented by OPS could be funded from project resources in agreement with the governments concerned.

56. The development of the financial provisions of the successor arrangements described in section II above are based on the assumptions described in paragraph 55. It must be added, however, that these estimates are subject to validation by the cost survey. It is expected that the results of this survey will be available in time for deliberations of the Governing Council at its current session.

## VIII. INTERCOUNTRY PROJECTS AND PROJECTS FINANCED BY SPECIAL PROGRAMME RESOURCES

57. In paragraph 13 of decision 90/26, the Governing Council requested the Administrator to make proposals for the charging of administrative and operational support costs in respect of regional, interregional, and global projects as well as projects funded from SPR. In this connection, it should be noted that during the fourth programming cycle the five agencies subject to the new regime implemented approximately 20 per cent of intercountry projects and projects financed by SPR.

58. In formulating proposals on this subject, the Administrator concluded that considerations of simplicity and consistency in the application of the successor arrangements required that any one agency should be subject, as far as possible, to one regime of support costs only, irrespective of the UNDP sources of financing. Thus, the Administrator would recommend that the proposals made in respect of country programmes should apply to intercountry programmes and SPR-financed projects as well, subject to the provisions described in paragraph 58 below. This proposal is consistent with paragraph 13 of decision 90/26, which requires that the appropriation for technical services support be calculated taking account of these programmes.

59. This proposal therefore requires that the five agencies subject to the new regime should be reimbursed for AOS in accordance with the standard differential rate structure to be established for this purpose. The charges for these services will be made to IPF sub-lines to be established for the intercountry programmes and SPR in the same manner as for country programmes, as discussed in section IV above. The resources to be transferred to these sub-lines and the method of reimbursement will follow the decisions of the Governing Council in respect of country programmes.

60. The sub-line for the regional IPFs will be managed by the regional programmes divisions in each regional bureau; for interregional and global projects by the Division for Global and Interregional Programmes; and for projects funded from SPR by a central unit, in much the same manner as the programme resources themselves are managed. The requirements currently in effect requiring consultations with a specified number of governments participating in intercountry programmes will also apply in the use of the sub-lines.

61. The amounts provided for the sub-line and resources to be held centrally in respect of these sources of funds have been calculated taking into account a projected mix of implementation by various agents, as shown in table 3.

## IX. FLEXIBILITY PROVISIONS

62. Paragraph 16 of decision 90/26 deals with flexibility provisions and contains a request to the Administrator to make specific proposals, in consultation with the agencies concerned, on the operation of such a system, taking account of inflation since 1982; the undesirable effect of sudden steps in computing rates; and the budgetary capacities of the agencies involved. UNDP has held several consultations with the agencies concerned and proposals have been jointly developed on this subject. These proposals were reported to the Governing Council in paragraph 22 of the interim report contained in document DP/1991/7.

63. In the discussion of this subject in the working group, several delegations requested that further explanation and justification be provided by UNDP for the inclusion of United Nations entities, excluding the Department of Technical Cooperation for Development (DTCD), among the organizations which could be eligible for flexibility payments. These entities include the regional economic commissions, the United Nations Conference on Trade and Development (UNCTAD), the International Trade Centre (ITC), United Nations Centre for Human Settlements (Habitat) (UNCHS), and the United Nations Centre on Transnational Corporations (UNCTC), which have been designated as executing agencies for UNDP-financed projects. The request of the working group for this justification is recorded in paragraph 5 of the annex.

64. In preparing the present section, the Administrator has carried out the necessary consultations with the United Nations. The explanations provided by the United Nations are summarized below. In this connection it is recalled that the Governing Council, in paragraph 3 of decision 81/40 of 30 June 1981, decided that "only autonomous organizations within the United Nations system shall be eligible for support cost flexibility arrangements". This decision was based, in part, on the view of the then Administrator that the component entities of the United Nations received administrative, financial and logistical support from the United Nations and that the totality of their respective support cost expenditures was not readily identifiable. Therefore, UNDP considered that a case had not been made for granting them support cost flexibility entitlements. The present Controller of the United Nations points out that this decision of the Council was taken despite strenuous objections put forward at the time by the United Nations. He further points out that previously one of the component entities of the United Nations, i.e., UNCTAD, had enjoyed eligibility for and received flexibility support.

65. The Controller recalls that in 1979 the regional economic commissions of the United Nations, under the terms of General Assembly resolution 33/202 of 29 January 1979 on the restructuring of the economic and social sectors of the United Nations, became executing agencies of UNDP in their own right. In terms of both programme and the related financing, including support costs, each of the regional commissions and the other component entities of the United Nations (eight in all) responsible for the implementation of UNDP-funded projects, function as full-fledged partners of UNDP, with which they deal directly. As such, each of these entities maintains both an

administrative and a substantive infrastructure to support the delivery of the technical cooperation programme funded by UNDP. Therefore, while they are component entities of the United Nations, they operate as a microcosm of the Organization in the delivery of technical cooperation. Furthermore, the regional commissions, UNCTAD, ITC and UNCHS, as executing agencies of UNDP, are entrusted with responsibilities for the delivery of programmes which are as explicitly defined as those of the smaller agencies of the United Nations. They also share, to some extent, the same difficulties which led the Governing Council to authorize flexibility arrangements for the small agencies, since it is recognized that support cost reimbursements do not cover the entire costs related to the provision of support services. For example, these units of the United Nations must attract and retain staff of the same calibre and at the same salary levels as other executing agencies of UNDP, notwithstanding the smaller amount of support costs reimbursement available to them. As most of these units are located in the developing world, certain types of expenses, such as communications costs and travel, may well be higher for these units than similar costs in the small European-based executing agencies. The size of the technical cooperation programmes of each of these entities is such that economies of scale in their operations are not applicable. For most of them, the opposite is the case. They must maintain a minimum basic infrastructure to meet support needs in technical and non-technical areas, irrespective of the size of the programme delivered, thus resulting in a substantial subsidy from the regular budget.

66. The United Nations argues strongly that the existence of the clear, distinct mandates for these entities as well as separate infrastructures to support the delivery of technical cooperation in their respective areas of responsibility justify entirely the provision of support costs flexibility. These arguments are advanced by the United Nations without prejudice to the Administrator's presentation in document DP/1991/7, made on the basis of paragraph 3 of decision 90/26, which established a distinction between DTCD and the other component entities of the United Nations. Should the Governing Council authorize such support cost flexibility payments, the rules applicable to the other small agencies, i.e., the annual submission by these agencies to the Administrator of clear documented evidence of the need for and the size of the flexibility requirements prior to the authorization of such payments, would obviously apply to each of the entities of the United Nations.

## X. CURRENCY FLUCTUATIONS

67. In paragraph 17 of its decision 90/26, the Governing Council requested the Administrator, in consultation with the agencies concerned, to make detailed proposals for mechanisms to provide a reasonable degree of protection from exchange rate movements, taking account of the need to share at least part of the foreign exchange risk with the executing agencies. The Council further specified that the proposals should have no net cost over time.

68. An outline of the proposal being developed by the Administrator following consultations with the agencies was provided to the Governing Council in paragraphs 23-27 of annex III of the interim report contained in document DP/1991/7. Subsequently, this outline proposal was further discussed and elaborated on with the agencies. As a result of these discussions, the Administrator has prepared a proposal which involves the application of a moving United Nations operational exchange rate to all support cost payments. The Administrator believes that this system would provide a reasonable degree of protection to the agencies from exchange rate movements without compromising the basic principle of UNDP resource management processes which aim to maximize the resources available for technical cooperation activities.

69. The proposal is based on the following premises:

(a) The value of the dollar vis-à-vis other currencies will fluctuate around an average rate over the years of the fifth and sixth programming cycles. In other words, there will be no secular increase or decrease in its value over this period. As a result, currency protection payments will be made by UNDP as the dollar weakens and there will be repayments by the agencies to UNDP as the dollar strengthens;

(b) The use of a moving average of United Nations operational rates of exchange based on the five previous years, as opposed to using the current rate alone, would provide agencies with protection against sharp annual swings in exchange rates;

(c) The cost to UNDP in any one year should not exceed a predetermined percentage of the support costs earned by the agencies in that year;

(d) The cost to UNDP for a period of five years should not exceed 5 per cent of the total agency support costs and should net out to be zero over a period of 10 years.

70. Based on these premises, the proposed system would be administered along the following lines:

(a) The accounting and reporting procedures currently in effect would continue to be applied; the appropriate United Nations operational rates of exchange would be used to record expenditures and support cost earnings on a monthly basis. At the end of a year, the support cost earnings in the currency of the country in which the agency's headquarters is located (referred to hereafter as local currency) would be calculated by applying the average United Nations operational exchange rate for the year to recorded dollar support cost earnings;

(b) This amount (the "standard amount") would then be compared with the amount in local currency (the "adjustment amount") calculated by applying the moving average United Nations operational exchange rate for the five previous years to the same dollar support cost earnings. If the adjustment amount were greater than the standard amount, UNDP would pay the agency concerned the difference in local currency, up to a maximum in any one year of the local

currency equivalent of 20 per cent of the dollar support costs earned in that year, subject to a maximum limitation for the programming cycle of 5 per cent of the agency's budgeted support costs for the cycle. If the adjustment amount were smaller than the standard amount, the agency concerned would repay UNDP the difference in local currency, subject to the same percentage maxima. In no case would an agency repay UNDP an amount greater than it had received from UNDP since the inception of the scheme;

(c) To ensure that the net cost over time was zero, agencies would repay to UNDP by the end of the sixth programming cycle any outstanding balances unless the balance had already been reduced to zero at some time within the previous five years.

71. On the basis of the total financial provisions for the successor arrangements for the fifth programming cycle of $634 million, a 5 per cent limitation on the currency protection payment would amount to $32 million. However, it is not expected that this maximum would ever be reached as a certain part of support costs payments are denominated and made in dollars. This would, however, be the hypothetical maximum "cost" to UNDP for the fifth cycle if the dollar had weakened to such an extent as to require net payments up to the maximum limitation level. The proposal requires that any amounts thus outstanding at the end of the fifth cycle should be recovered by the end of the sixth cycle, unless previously repaid at some stage in the sixth cycle. These amounts outstanding at the end of the fifth cycle could then be viewed as advances made to the agencies.

72. It should be noted that any "costs" arising from this proposal will be charged to the item in UNDP accounts entitled "other income", where exchange rate fluctuations are recorded and reflected. These charges are not made to the agency support costs.

73. The agencies, while appreciating that the scheme is expected to have zero cost over time, disagree with the provision for repayment by the end of the sixth programming cycle and indicate that they could not commit themselves to repayment at any specific time. In addition, they feel that the application of the proposed maxima would not provide adequate protection in the case of a persistent downward trend in the value of the dollar and that the application of the proposed maxima under such conditions would not meet the requirement in Governing Council decision 90/26 for a scheme giving a reasonable degree of protection.

74. The Administrator submits that in the case of a persistent downward trend in the value of the dollar it is impossible both to protect the agencies and have zero cost over time. In addition, cases are conceivable where a large fall in the dollar could cause a major impact on support costs earned while limitations on currency protection payments would still be necessary to limit such payments to a reasonable amount. Therefore, the scheme as outlined above is designed to ensure the zero cost over time criterion is met while expecting that, on the basis of normal cycles of exchange rate movements, a reasonable degree of protection will be offered. If the agencies were to be guaranteed

protection under all circumstances, including precipitate declines or persistent weakness of the dollar, then the requirement for zero cost over time would have to be eliminated. In the Administrator's view, the proposed scheme balances the two requirements for zero cost and reasonable protection.

## XI. TRANSITIONAL ARRANGEMENTS

75. Paragraph 20 of decision 90/26 deals with transitional arrangements. In paragraph 25 of his interim report (DP/1991/7), the Administrator informed the Governing Council that the financial package discussed with the agencies in Geneva in November 1990 provided adequate transitional safeguards for the five agencies subject to the new regime, in particular for the next biennium, 1992-1993. Current estimates were that income for the five agencies, taken together, for the next biennium, would approximate the income which the agencies would have received had the current regime continued in the fifth programming cycle. This was based on the assumption that in accordance with past patterns of programme build-up, projects to the extent of $500 million for the five agencies would be approved before 1 January 1992, when the successor arrangements go into effect. Accordingly, these projects, even though they are financed from fifth cycle resources, would be subject to the current regime and therefore earn support costs at a rate of 13 per cent.

76. The agencies concerned have since pointed out that because of the relatively slow build-up of the programme in 1991, the target of $500 million of projects to be approved before 1 January 1992 may not be achieved and therefore the projected income for the biennium 1992-1993 may not be realized. To meet this concern of the agencies, the Administrator recommends that the application of 13 per cent support cost rate continue beyond 1 January 1992 until such time as the project budget portfolio for 1992 and future years for the five agencies combined reach the target level of $500 million, or until 30 June 1992, whichever comes first. It should be noted that, on the basis of the latest analysis of the data available, UNDP considers it likely that the target of $500 million of project approvals against fifth cycle resources for these agencies will be achieved during the first quarter of 1992, at the latest.

77. The five agencies have further argued that the level of income to be earned by them from the IPF sub-line, as compensation for AOS, will remain uncertain for a period of time until a definite pattern of use of these services by the governments is established. This uncertainty is further compounded by the proposed arrangements for the management of TSS-2, which also, according to them, do not provide sufficient predictability of earnings for the individual agencies concerned. During this interim period therefore, it is claimed, it would not be possible for the agencies to prepare reasonably accurate estimates of potential earnings under the successor arrangements for incorporation in their biennial budgets. To compensate for these uncertainties and to provide a base from which the next biennial budgets could be prepared, the agencies proposed that they should be given assurances that for each of the first three years of the fifth programming cycle,

i.e., 1992-1994, their support cost earnings should not be allowed to fall by more than 7.5 per cent per year when compared to the average annual support cost earnings each of them has had during the last years of the fourth cycle.

78. The Administrator has given careful consideration to these arguments. In order to present his analysis of the transitionary situation, table 6, showing his projections of income for the five agencies concerned, has been prepared. It is based on a similar presentation provided to the Governing Council in document DP/1991/7.

79. Table 6 shows that under the new regime, the agencies can expect to receive from UNDP sources an amount of $189.5 million for the five years combined (line 3). This amount excludes any potential earnings from the provision of administrative and operational services, which will be financed from the IPF sub-line. On the other hand, the average annual income during the fifth programming cycle which the five agencies could expect to receive, if the current regime of 13 per cent support costs reimbursement were to continue in the fifth cycle, would amount to $58.2 million or $291.0 million for the five years combined (line 4). It would appear, therefore, that income to the extent of $101.5 million for the five years from AOS will be sufficient to match the income likely to be generated under the current regime (line 5 (b)).

80. Applied to a three year transitionary period i.e., 1992-1994, as proposed by the agencies, the income necessary from AOS sources would amount to $42.7 million (line 5 (b)). This would require that the five agencies together implement projects amounting to $427 million during this transitionary period (line 6). The table shows in line 7 that if the five agencies together implemented as little as 20 per cent of the total programme to be approved during this period, the resulting income would equal that which would have been earned under the old regime. This compares with 50 per cent of all programmable resources normally implemented by these agencies.

81. Based on the above analysis, the Administrator is of the view that during a transitionary period of three years, the total income for the agencies will equal and perhaps exceed that which they would have received with continuation of the current regime. He therefore considers the request for further transitionary measures unnecessary. Furthermore, while the Administrator fully appreciates the argument that predictability of income is important for the budgeting exercise of the agencies, he feels compelled to point out that, as a voluntarily funded organization, the provision of a guarantee by UNDP of a floor below agency income, would require the creation of a special financial reserve funded from current resources. Decision 90/34 on the fifth programming cycle and the financial envelope arising from that decision for the successor arrangements do not contain any provisions for such a reserve. The Administrator therefore recommends that the Governing Council accept his first proposal, described in paragraph 76, which he believes offers adequate safeguards to the agencies during the transitionary period.

Table 6. Estimated income for five agencies subject to the new regime from UNDP sources during the fifth cycle

(Millions of dollars)

| | 1992 | 1993 | 1994 | 1995 | 1996 | Total fifth cycle |
|---|---|---|---|---|---|---|
| 1. TSS-1 and TSS-2 combined | 15.4 | 24.4 | 26.6 | 28.8 | 28.8 | 124.0 |
| 2. Projects to be approved before 1 January 1992 | 43.6 | 14.6 | 7.3 | 0.0 | 0.0 | 65.5 |
| 3. Total (1) + (2) | 59.0 | 39.0 | 33.9 | 28.8 | 28.8 | 189.5 |
| 4. Income if old regime is continued in fifth cycle (i.e., at 13 per cent rate) | 58.2 | 58.2 | 58.2 | 58.2 | 58.2 | 291.0 |
| 5. Additional income from AOS necessary to match income based on old regime: | | | | | | |
| (a) Annual (4) - (3) | (0.8) | 19.2 | 24.3 | 29.4 | 29.4 | 101.5 |
| (b) Cumulative (from 1 January 1992) | (0.8) | 18.4 | 42.7 | 72.1 | 101.5 | 101.5 |
| 6. Cumulative value of projects necessary to be implemented by five agencies to earn AOS income mentioned in 5 (b) (5 (b) x 10) | (8) | 184 | 427 | 721 | 1 015 | 1 015 |
| 7. Programmable resources available during period (cumulative from 1 January 1991) | 695 | 1 390 | 2 085 | 2 780 | 3 416 | 3 476 |
| 8. Percentage of programmable resources necessary to be implemented by five agencies ((6(/(7) x 100) | | 13 | 20 | 26 | 29 | 29 |

/...

## XII. COST MEASUREMENT SYSTEM

82. In paragraph 21 of decision 90/26, the Governing Council requested the Administrator, in consultation with the agencies, to prepare a report to the Council as to the feasibility, benefits and costs of introducing a generally acceptable and uniform cost measurement system. Accordingly, the independent consultant, referred to in paragraph 47, was asked to address this issue, in conjunction with the cost survey being conducted by him in the five agencies subject to the new regime. The consultant has submitted an interim report which will be reviewed with the agencies concerned. A final report is expected to be submitted by the consultant along with the final report on the cost surveys mentioned above. Based on this report, and the comments of the agencies, the Administrator will submit his proposals to the Council at its thirty-ninth session (1992).

## XIII. MONITORING AND EVALUATION

83. In paragraph 23 of decision 90/26, the Governing Council requested the Administrator to present a proposal for the independent monitoring and evaluation of the new arrangements. In discussion with the agencies, it has been proposed that an evaluation of the new system be conducted in late 1993 in time for its results to be reported and considered by the Council at its forty-first session (1994). The scope and terms of reference for such an evaluation will be submitted to the Council at its thirty-ninth session (1992), following consideration of the present report by the Council.

84. UNDP intends to monitor carefully the implementation of the new arrangements beginning 1992 and expects to form an inter-agency task force for this purpose. Preparations for the introduction of the new system are currently under way and following a decision by the Governing Council at its current session, UNDP will carry out a programme of briefings and seminars on the modalities of implementation for the field personnel of UNDP, the agencies and government.

Annex

UNDERSTANDINGS REACHED AT THE INFORMAL MEETING OF THE WORKING GROUP OF THE GOVERNING COUNCIL, HELD 20-29 FEBRUARY 1991

During the special session of the Governing Council held in February 1991, an informal working group of the Governing Council considered the Administrator's progress report contained in document DP/1991/7 on successor arrangements to agency support costs. At the conclusion of the meeting, the Associate Administrator, basing his remarks on the comments made by the various delegations and views expressed thereon, summarized the main points arising from the meeting as follows.

1. It was confirmed in the discussions that the financial expenditure ceiling for the planning of the successor arrangements for agency support costs for the fifth programming cycle would be $634 million, representing 14 per cent of programmable resources.

2. The Associate Administrator assured the members, on behalf of both UNDP and the agencies concerned, that the report to be submitted to the Governing Council at its thirty-eighth session would include a comprehensive and substantive discussion of technical support services at the programme and project levels (TSS-1 and TSS-2), including an assessment of the adequacy of present funding arrangements for those services (as requested in paragraph 10 of decision 90/26).

3. He also stated that the report would include an analysis of the issues surrounding the implementation of paragraph 11 of decision 90/26 in relation to the agencies governed by the old regime of support costs.

4. The Associate Administrator reiterated that UNDP would report to the Governing Council at its thirty-eighth session, as called for in paragraph 20 of decision 90/26, on the potential need for transitional arrangements to permit adjustments by agencies and governments, including the possibility of applying the old regime arrangements until the programme has built up to a level of $500 million (for the five large agencies combined) or 30 June 1992, whichever occurs earlier.

5. The report would include a full justification for the Administrator's proposals on flexibility arrangements in relation to the United Nations entities.

6. The Associate Administrator informed the meeting that UNDP would release the unedited, final version of the paper to be submitted at the thirty-eighth session (i.e., the "yellow" copy) by 30 April 1991. Additional time would be taken to enable UNDP to develop a comprehensive paper, taking fully into account the requests and comments made by members of the working group. The additional time was also necessary to incorporate the work of the independent consultants on the development of a differential rate structure for administrative and operational services.

---